

**Duplicate Form 941
Return Filings**

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**Duplicate Form 941
Return Filings**

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Executive Summary

This review was conducted as part of Internal Audit's Fiscal Year 1997 Business Taxpayer Audit Strategy. Under the strategy, Internal Audit initiated a series of national reviews which were designed to identify opportunities to improve customer service and reduce burden for the business taxpayer. This review focused on those business taxpayer accounts where more than one Form 941, Employer's Quarterly Federal Tax Return, was processed which resulted in a duplicate filing condition.

During tax year 1996, approximately 250,000 business taxpayers (3.5% of total business taxpayers) filed more than one Form 941 return for at least one quarter. Because of the relatively low volume, we focused our objective on profiling these modules and determining if there were any cost-effective solutions to reduce the volume, expedite processing, and improve service to business taxpayers. We performed the review in accordance with generally accepted government auditing standards.

Results

Although duplicate Form 941 returns do not create a significant burden to the Service, we did identify two processes which the Service may be able to cost-effectively improve. These changes will improve the efficiency of processing duplicate returns and should also improve service to the taxpayer. Management acknowledged that the Service could expedite processing in these two areas.

We also discussed with management our profiling of Tax Year 1995 and 1996 duplicate Form 941 return accounts. Based on the low number of taxpayers in the various profile characteristics, we jointly determined that there were no cost-effective solutions to reduce the volume of duplicate returns.

Process Improvements

Implementation of a Prescreening Process for Amended/Corrected Returns. Four of the six service centers we visited had already implemented an upfront prescreening process to identify amended or corrected returns. The prescreened returns were then sent directly to Adjustments rather than continuing through regular return processing before being routed to Adjustments. Our EDP analysis showed that three of these four service centers had fewer duplicate returns processed for amended or corrected returns. Prescreening has been shown to be a cost-effective method to prevent duplicate return postings, streamline processing, and resolve taxpayer accounts quicker.

Elimination of CP 193A Notice. We determined that at all six service centers reviewed, management was not using the CP 193A notices (used to request the original return be

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pulled and forwarded to Adjustments), but were instead using CFOL commands to view the original return online. Management agreed to eliminate the CP 193A notices.

Profile of Taxpayers Filing Duplicate Form 941 Returns

Because of the prescreening efforts ongoing in some of the service centers, the following numbers do not represent the total number of duplicate returns filed by the taxpayers, only those duplicate returns that posted to the master file. However, the numbers do provide a high level indication of the different characteristics of duplicate returns. We did not perform further audit work beyond these analyses.

- 83% of the taxpayers had a duplicate return post to only one of the eight quarters in the two-year period, indicating that taxpayers do not repeatedly file duplicate returns.
- 49% of the businesses were less than six years old, indicating that taxpayers may not understand filing requirements during the first few years of being in business.
- 64% of the original returns had under \$5,000 tax liability, indicating that the smaller businesses may not understand the filing requirements.
- In 21% of the duplicate postings, the taxpayer wrote “amended or corrected” on the return, indicating that taxpayers may not understand how corrections should be reported (included on the current Form 941 return).
- The volume of duplicate returns was almost evenly distributed among the four quarters (23% - 29%), indicating that taxpayers do not understand when corrections should be reported (in the fourth quarter only).

Directions for correcting Form 941 returns are provided in both the Form 941 Instructions and the Employer’s Tax Guide (Publication 15, Circular E).

Summary Recommendation

- Consider expanding to all service centers a prescreening process for amended or corrected Form 941 returns.

Management agreed with our recommendation and is taking appropriate corrective action. The complete response is shown as Attachment II.

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Preface

The review is one in a series of national audits designed to improve customer service and reduce burden for business taxpayers.

This review was conducted as part of Internal Audit's Fiscal Year 1997 Business Taxpayer Audit Strategy. Under the strategy, Internal Audit initiated a series of national reviews which were designed to identify opportunities to improve customer service and reduce burden for the business taxpayer. Collectively, the series of reviews addressed the major points of contact that a business taxpayer could have with the Service; from establishing a new business, through making tax deposits and filing returns, and responding to notices. We conducted these reviews from the perspective of how the business taxpayer might view the Service.

We discussed the reviews included in the strategy up-front with executive management and obtained their input on objectives and potential outcomes, as well as their commitment to take appropriate actions. We also worked closely with all levels of Service management to determine the significance and scope of the burden on the business taxpayer and the inefficiencies in existing practices for providing quality customer service. Through discussions with management, we jointly identified feasible alternatives to address these areas. We presented executive management with information to assist them in determining which alternatives to implement.

Objective and Scope

Our objective was to profile Form 941, Employer's Quarterly Federal Tax Return, account modules where more than one return was processed (duplicate filing condition) and determine if there are any cost-effective solutions to reduce the volume, expedite processing, and improve service to taxpayers. This objective supports Internal Audit's Business Taxpayer Strategy efforts for improving the way the Service manages and resolves business taxpayer accounts.

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To accomplish this objective, we performed the following tests.

- Determined the volume of Form 941 returns filed and processed with duplicate filing conditions and their impact on the Service.
- Determined the procedures for processing original and duplicate Form 941 returns and compared the methods used at the six service centers included in our review.
- Analyzed a Master File extract of Tax Year 1995 (extract cycle 9643) and 1996 (extract cycle 9726) Form 941 account modules that contained a duplicate filing condition and profiled the following data:
 - Number of taxpayers and modules,
 - Age of taxpayer entities,
 - Tax settlement amounts,
 - Number of returns filed as amended returns, etc.
- Determined costs associated with processing duplicate Form 941 returns.
- Discussed results with management to work jointly towards identifying cost-effective alternatives.

We conducted these tests in accordance with generally accepted government auditing standards. Attachment I contains the detailed objectives and scope of review.

Background

Most Form 941 returns received by the Service are handled through the various Submission Processing functions, such as: Receipt and Control, Document Perfection, Data Conversion, etc. The return is considered completely processed when a Transaction Code (TC) 150 posts on the Master File account module.

Some Form 941 returns are marked or identified as “Amended” or “Corrected” by the taxpayer. These

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returns require different processing actions. For example, Document Perfection will assign a “G” computer condition code indicating the return is an amended, corrected, or revised return. Only the return entity information is transcribed and the return posts to Master File with a TC 976, duplicate return, instead of a TC 150.

When more than one return posts to a module or the taxpayer files an amended Form 941 return, the Service considers it a duplicate return.

A duplicate filing condition (TC 976) occurs when an amended (“G” coded) return is processed or a return posts to a module already containing a return (TC 150). When a TC 976 posts, the computer freezes the account to prevent any refund or offset from the module. A Master File analysis is performed weekly to identify all the account modules where a TC 976 posted. CP 193 and 193A notices are generated (in duplicate) and forwarded to the Files Unit. The Files Unit pulls the returns by associating the notices with the duplicate (CP 193) and original (CP 193A) returns. One copy of the notice is attached to the return and the other is used as a charge-out document in the Files Unit. The associated notices and returns are then forwarded for resolution to the Adjustments function.

Some common reasons that a return posts as a duplicate return to Master File with a TC 976, are:

- Amended/corrected return information.
- Incorrect tax period.
- Response to a delinquency notice from the IRS.
- Filing a second return as a final return.
- Subsequent payment or address change, etc.

Results

We met with management at the beginning of the review to discuss the duplicate return filing issues and the objective of our review. Management was not significantly concerned about the workload created by processing accounts with duplicate return filings. In addition, based on the low volume of duplicate returns

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By understanding the population of taxpayers filing duplicate returns and improving the processing procedures for duplicate filed Form 941 returns, the Service can improve assistance to taxpayers.

(3.5% of the taxpayers and 1% of the returns), we jointly determined there were no cost-effective solutions to reduce the volume of duplicate returns.

Our evaluation of the Service's procedures for processing duplicate filing condition accounts identified the following two ways that the Service can expedite the process. As a result, the taxpayers will benefit because their returns will be resolved earlier; and, the Service will benefit because fewer actions will be needed to process the accounts.

- Implementation of a prescreening process for returns identified by the taxpayer as amended.
- Elimination of CP 193A notices.

Management was also interested in information about the taxpayers who are filing duplicate returns. Therefore, we are providing information from our computer analysis of duplicate filing conditions to help management better understand the population.

Potential processing changes that could benefit the Service and taxpayer.

The Service can improve the process by prescreening Form 941 returns that the taxpayer identifies as being amended, and eliminating CP 193A notices.

Our review identified two areas that have the potential to provide a benefit to the Service and the taxpayer.

- Performing a prescreening of Form 941 returns will benefit both the Service and the taxpayer by reducing processing time and resolving accounts quicker.
- Eliminating the CP 193A notice will benefit the Service by reducing the volume of notices printed, cost of paper and computer time.

Prescreening Procedures

To expedite processing and reduce the volume of Form 941 returns processed with a duplicate filing condition, we found four of six service centers reviewed had implemented prescreening procedures. Three of the four

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The four service centers that prescreened Form 941 returns reduced the volume of returns processed to Master File, resulting in fewer CP 193 and 193A notices and promoting quicker resolution for the taxpayer.

centers prescreened the returns noted by the taxpayer as amended/corrected, while the fourth center prescreened all Form 941 returns that were not for the current period. By implementing the prescreening processes, the four centers reduced the volume of returns processed to Master File, resulting in fewer duplicate postings and promoting quicker resolution for the taxpayer.

Both types of prescreening procedures involve an agreement between Submission Processing and Adjustments. The specific returns are identified and sorted by Receipt and Control or Document Perfection and then forwarded directly to Adjustments.

Prescreening process for only amended/corrected returns

The process used for just the amended/corrected returns does not have any impact on Adjustments' workload. The amended/corrected return will still be worked after it posts to Master File as a duplicate return. The prescreening process just works the duplicate return sooner. In addition, prescreening amended/corrected returns will have a positive impact on Submission Processing since fewer returns will be processed to Master File.

Prescreening process for all Form 941 returns other than current periods

The other prescreening process that includes all Form 941 returns other than current periods does increase Adjustments' workload, but also has a positive impact on other service center functions. Additional resources in Adjustments are needed to review all the "other than current period" returns, not just the amended/corrected returns.

Prescreening the "other than current period" returns involves researching Master File using CFOL commands to determine necessary resolution actions. The process immediately identifies exact duplicate returns and prevents unnecessary processing to Master File. The process also identifies returns where the taxpayer put the wrong tax period on the return. The returns with the corrected tax period, along with the

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other returns that have been determined to be original prior period returns are returned to Submission Processing to post to Master File. By verifying and correcting the tax return before processing, the return will have a better chance of posting correctly the first time.

We determined that the service center with expanded prescreening procedures prevented 37% (13,714) of the number of CP 193 notices that would have been processed.

The service center that prescreened all the prior period Form 941 returns also maintained records to determine the volume of CP 193 notices prevented. We analyzed prescreening reports consisting of 45 cycles in CY 1997. We determined that the prescreening process prevented 37% (13,714) of the number of CP 193 notices that would have been processed. Of the 13,714 notices prevented:

- 59% were attributable to amended returns.
- 30% were for periods that would have posted to the wrong period.
- 11% were for true duplicate returns.

Our EDP analysis of the duplicate returns filed in the six service centers reviewed showed that the centers that prescreened had fewer duplicate filing conditions. The following provides the volume of TY 1996 Form 941 total modules, the volume of “G” coded duplicate filing condition modules, and the percentage of the “G” coded modules to the duplicate modules population.

Our EDP analysis showed that three of the service centers that prescreened had fewer “G” coded returns with duplicate filing conditions.

Service Center	941 Modules	“G” TC 976
Kansas City	3,542,907	2,633 (8.5%)
Ogden	2,761,251	3,451 (13.6%)
Cincinnati	2,341,900	2,808 (13.7%)
Memphis	2,680,378	7,234 (22.8%)*
Atlanta	2,257,185	6,540 (17.9%)
Andover	1,963,106	5,226 (25%)

* 1996 was the first year Memphis prescreened.

The chart indicates that three of the service centers that prescreened (Kansas City, Ogden, Cincinnati) had fewer

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“G” coded returns with duplicate filing conditions as shown by the smaller percentage of “G” coded returns. These centers have had the prescreening procedures in place for at least the last three years. The fourth service center that prescreens, Memphis, had a comparably higher percentage of “G” coded returns. However, Memphis only started prescreening in 1996 and since then, the percentage has been reduced.

Discussions with management indicated that they were interested in giving the option of expanding prescreening to other service centers to help expedite the resolution of these types of returns.

If prescreening were performed in all service centers, the number of duplicate returns processed could be reduced, which could result in reduced processing costs for the Service. In addition, taxpayers would benefit by having their accounts resolved quicker.

Recommendation

1. Consider implementing a prescreening process in all service centers.

Management Response

Management agreed with the recommendation. Copies of the Ogden Service Center’s prescreening guidelines have been provided to each service center. Each service center Director was asked to review the package and decide whether to adopt some form of a prescreening process or not.

Additionally, Submission Processing will work with Adjustments and conduct a Risk Analysis to determine the implications of service centers conducting a presorting and prescreening process on the duplicate Forms 941.

Elimination of CP 193A Notices

We determined that five of six service centers reviewed are destroying the Form 941 CP 193A notice and not using it to pull the original returns. The sixth center stopped printing the CP 193A in August 1996. CFOL

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commands are being used to view the original return. We determined from service center reports:

- In CY 1995, 359,276 Form 941 CP 193A notices were generated.
- In CY 1996, approximately 355,500 Form 941 CP 193A notices were generated.

Approximately 700,000 CP 193A notices were generated per calendar year in 1995 and 1996. Generating the CP 193A notice is not necessary and eliminating it will save the Service paper costs of about \$5,000 per year and also save computer time.

The cost to forward and destroy the notices is low; however we determined there is no need for them to be generated. Although the actual cost savings are small, by not printing the CP 193A, there will be computer and printer savings. The following shows the cost savings.

Year	Number of Duplicate Notices	Cost to Print
1995	718,552	\$ 5,030
1996	711,000 (estimate)	\$ 4,977 (estimate)

Recommendation

2. Eliminate the CP 193A notices.

Management Response

Management agreed with the recommendation and implemented a Request for Information Services to eliminate the CP 193A notice.

Profile of the duplicate filing condition module accounts.

We profiled Tax Year (TY) 1995 and 1996 Form 941 account modules where a duplicate filing condition was present (TC 976). The purpose was to provide a breakdown of the characteristics of the taxpayers and module accounts with a duplicate filing condition. Because of the prescreening efforts ongoing in some of the service centers, our analysis does not represent the total number of duplicate returns filed by the taxpayers,

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only those duplicate returns that posted to the master file.

We presented and discussed these characteristics with management to help them understand the population and to determine if the Service needs to address taxpayer education.

Overall Population

We compared the volume of account modules with a duplicate filing condition to the total population of Form 941 modules. We determined that only 3.5% of the total business taxpayers filed more than one Form 941 return. The population of the duplicate returns posted compared to the total Form 941 module accounts is also relatively small (1%) and the Tax Settlement Amount is a low percentage (4%). The estimated percent of duplicate return workload in the BMF Adjustments Area is also relatively small (7-8%). This information reaffirmed management's and our conclusion that processing Form 941 duplicate filing conditions is not a significant problem. See charts below.

Although the population was small (1%), our profile provided useful information to help understand which taxpayers filed duplicate returns.

Form 941 Population	TY 1995	TY 1996
Total Modules	25,405,303	25,399,194
Tax Settlement Amount*	\$901 billion	\$957 billion

* = Original Return Tax Liability (TC 150)

Form 941 Duplicate Population	TY 1995	TY 1996
Total Taxpayers	275,410	254,270
Total Modules	321,997	293,749
Tax Settlement Amount	\$39 billion	\$35 billion

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We also determined that the majority of modules with duplicate filing conditions had a timely filed original return.

Form 941 Duplicate Population	TY 1995	TY 1996
Modules with TC 150	321,301	292,564
Modules with Timely Filed TC 150	239,469	226,743
Percent TC 150 Modules Timely Filed	75%	78%

Further breakdown of the duplicate return population identified useful information to help understand which taxpayers were filing returns that posted with duplicate filing conditions. These trends follow.

General Characteristics

Volume of Taxpayers

Our analysis showed that 83% of the 501,665 taxpayers filed a duplicate return for only one of the eight periods. This indicates that there is not a problem with many taxpayers repeatedly filing duplicate returns.

Newer Businesses Are a High Percentage of Duplicates

We analyzed the age of the business based on the entity creation date and determined that most of the returns with a duplicate filing condition were filed by young businesses. This indicates that taxpayers may not understand filing requirements the first few years of being in business.

- 29 percent of the business taxpayers were less than three years old.
- 49 percent of the business taxpayers were less than six years old.

Taxpayers with Low Tax Settlement Amounts Are a High Percentage of Duplicate Returns

We analyzed the module account tax settlement amounts and determined that the majority of the businesses filing returns with a duplicate filing condition have low tax

We identified some key population trends:

- *49% of the business taxpayers were less than six years old.*
- *64% of the modules had tax settlement amounts between \$0 and \$5,000.*
- *The volume of duplicate return postings was almost evenly distributed (23% - 29%) among the four quarters.*

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settlement amounts. This may indicate that these are small businesses. The following table identifies the volume of modules by tax settlement amount ranges:

Tax Settlement Amount Range	TY 1995	TY 1996
Negative Tax Settlement Amount	150	133
\$0	46,433	44,756
\$ 1 - \$ 2,499	119,170	105,406
\$ 2,500 - \$ 4,999	40,616	37,796
\$ 5,000 - \$ 9,999	34,852	32,838
\$ 10,000 - \$ 19,999	26,221	24,691
\$ 20,000 - \$ 49,999	22,475	20,493
Greater than or equal \$50,000	32,080	27,636
Total Modules	321,997	293,749

Duplicate Returns Are Distributed Evenly Among the Tax Periods

Analysis of the tax periods where the duplicate return posted showed that the volume was almost evenly distributed (23% - 29%) among the four quarters. We could attribute this to various causes based on the many reasons that a duplicate filing condition occurs. For example, the taxpayer did not indicate the correct tax period or the Service did not transcribe the correct tax period, resulting in the return posting to an incorrect period.

However, duplicate filing should be expected more often in the fourth quarter because the taxpayer would be correcting income tax withheld from wages paid in earlier quarters to reconcile with the year-end reports (employee's Forms W-2 and employer's Form W-3). This could indicate that taxpayers are not aware of the requirements to make the corrections in the fourth quarter.

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Posting Characteristics

We identified some trends among the return posting characteristics.

Taxpayers Filing Amended/Corrected Returns

We analyzed the duplicate filing condition returns where the taxpayer indicated that the return was an amended or corrected return. These were the returns identified during Document Perfection and “G” coded (computer condition code) as amended/corrected returns. Our analysis showed the following volumes.

- 71,066 (22%) of TY 1995 modules
- 61,120 (21%) of TY 1996 modules

The taxpayer indicated the return was an amended or corrected return in 22% of the modules in TY 1995 and 21% of the modules in TY 1996.

Further analysis showed that “G” coded returns posted evenly to the first three quarters (approximately 21% per quarter) and more often to the fourth quarter (37%). This further indicates that the taxpayers do not fully understand how to amend or correct previously filed Form 941 returns.

To correct prior period Form 941 returns, taxpayers should attach a Form 941C, Statement to Correct Information Previously Reported Under the Federal Insurance Contributions Act, to the current period return. This is different from amending/correcting other types of returns, i.e. 1040X and 1120X. In addition, the type of tax (income or Social Security and Medicare) that needs to be corrected determines how and when the corrections are to be made. Since these Form 941 instructions are inconsistent with other types of tax returns, this may contribute to the taxpayer’s confusion, causing more returns to be received and processed by the Service.

Final Returns (“F” Coded) Represent a Low Percentage of Duplicates

Only a small percentage (5%) in both years were final returns.

We analyzed the duplicate filing condition returns where the taxpayer indicated that the return was a final return. These were the returns identified during Document Perfection and “F” coded (computer condition code) as a final return to stop the filing requirement. The following shows the taxpayer filed few second returns to

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inform the Service that they are no longer required to file.

- 15, 633 (4.9%) of TY 1995 duplicate returns were processed indicating a final return.
- 14,918 (5.1%) of TY 1996 duplicate returns were processed indicating a final return.

Only 3% of the returns with a duplicate filing condition may have been caused by the Service not timely processing the original returns.

The Service Timely Processed Returns Received

We performed an analysis to determine if the Service may have caused the taxpayer to send in another return. If the taxpayer timely filed a return and the Service did not timely process the return, the taxpayer may receive a delinquency inquiry notice. This may cause the taxpayer to file another return for the same period.

We identified the modules that were in a delinquency inquiry status the cycle prior to the TC 976 posting. From those modules, we identified the modules that also had a timely filed original return. We identified only 10,548 (3.3% of TY 1995) and 9,333 (3.2% of TY 1996) modules where a delinquency inquiry notice was issued on accounts where the original return was timely filed.

Since the timely filed original returns were not timely processed, a delinquency inquiry notice would have been mailed to the taxpayer. This would indicate that the Service did not cause many second or duplicate returns to be filed by the taxpayer.

Filing a Second Return to Include Schedule B Represents a Small Percentage of Duplicates

Only about 3% of the population required a Schedule B that had not been filed with the original return.

We analyzed the data to determine whether the second returns were filed to submit a Form 941 Schedule B, Employer's Record of Federal Tax Liability that was not attached to the original return. We compared the volume of returns that required a Form 941 Schedule B to the volume that did not include the Schedule B with the original return.

We determined that only 3% of the total modules created by a duplicate filing condition may have been

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caused by the taxpayer sending another return with the Schedule B attached.

- In TY 1995, 60,580 modules required a Schedule B of which only 10,742 (3% of the total duplicate modules with a TC 150) original returns did not include the Schedule B.
- In TY 1996, 54,306 modules required a Schedule B of which only 9,312 (3% of the total duplicate modules with a TC 150) original returns did not include the Schedule B.

These various trends and characteristics can be useful information to help understand why the taxpayers filed the duplicate returns. This can help the Service identify areas for further taxpayer education.

Conclusion

Our analysis of duplicate returns and evaluation of the Service's procedures for processing duplicate filing condition accounts provides information to help the Service better understand the population of duplicate filing conditions and to improve processing procedures.

For example, by considering a prescreening process and different characteristics of the population, the Service might be able to improve account management and taxpayer service. In addition, eliminating CP 193A notices will reduce the volume of notices and paper costs and also eliminate an out-dated practice.

Lynn Wofchuck

Lynn Wofchuck
Audit Manager

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ATTACHMENT I

Detailed Scope and Objectives

The overall objective of this audit was to profile Form 941, Employer's Quarterly Federal Tax Return, account modules where more than one return had been processed (duplicate filing condition), and determine if there are any cost-effective solutions to reduce the volume, expedite processing, and help taxpayers by resolving their cases earlier.

We conducted the following tests to accomplish the objective.

- I. Determined how Form 941 returns are processed and duplicate return issues are resolved by researching the IRM, discussing procedures with National Office management, conducting a walkthrough at the service centers in our review and reviewing a judgmental sample.
 - A. Determined the flow of work from Receipt and Control to Files for remittance and non-remittance processed Form 941 returns in one service center.
 - B. Determined how a Transaction Code (TC) 976, Duplicate Return posting, is generated.
 - C. Determined the 1995 and 1996 Program Completion Dates (PCD) for remittance and non-remittance Form 941 returns and Return Delinquency Checks.
 - 1) Identified and discussed how the Service Center PCD are established for remittance and non-remittance Form 941 returns.
 - 2) Identified and discussed how and when the Master File Return Delinquency Check is performed.
 - D. Determined processing procedures to issue and resolve return delinquency check notices.
 - E. Determined what function resolves duplicate returns posted and what actions are taken to settle the account.
 - F. Reviewed a judgmental sample of 132 cases from one service center's adjustments of CP 193 accounts and correspondence related to duplicate returns to determine the reason why the taxpayer filed the return again or sent in a copy of the original return. Noted any trends.
- II. Determined the number of taxpayers filing duplicate returns by service center and quarter by identifying the number of Form 941 duplicate return accounts. We used Master File extracts for Tax Year 1995 (extract cycle 9643) and Tax Year

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- 1996 (extract cycle 9726) to perform a nationwide analysis of all duplicate Form 941 returns filed. We evaluated this data for trends.
- A. Validated the data received and resolved problems with the data.
 - B. Determined the total count and tax dollars of Form 941 modules for tax year 1995 and 1996 by service center.
 - C. Determined the total count and tax dollars of Form 941 modules for tax year 1995 and 1996 with a TC 976 (duplicate return) posting by service center and tax quarter.
 - D. Based on test II.C. (Modules with TC 976), determined:
 - 1) The age of the entities.
 - 2) The number that were “G” coded returns, indicating amended/corrected returns.
 - 3) The number that were “F” coded returns, indicating final returns.
 - 4) Modules with TC 976 that were filed subsequently to the issuance of a Return Delinquency First Notice (CP 515/Status Code 02).
 - E. For modules with TC 976, identified the number of original Form 941 returns that required a Schedule B.
 - 1) Determined how many original returns were filed with the Schedule B.
 - 2) Determined how many original returns were processed without the required Schedule B.
 - F. Trended the characteristics of the duplicate filings and summarized the results for management.
- III. Determined each service center’s procedures for processing Forms 941 and duplicate Forms 941. This test was accomplished by performing collateral tests in six service centers.
- A. Discussed with Service Center Processing management (i.e.: Receipt and Control) how Forms 941 received with attachments/correspondence are sorted, batched, controlled, and routed.
 - B. Discussed with Service Center Computer Operations management the procedures used to download, print, and distribute the CP 193 and CP 193A listing.
 - C. Discussed with Service Center Files Unit management whether the CP 193 and CP 193A notices are received, in duplicate, and what returns are pulled and forwarded to BMF Adjustments.

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- D. Discussed with BMF Adjustments management procedures used to obtain, assign, and resolve Form 941 duplicate and amended return filing conditions.
- IV. Determined the potential impact that duplicate return filings have on Service workload and taxpayers by determining costs associated with the process.
 - A. Determined and summarized the costs associated with processing Form 941 returns and duplicate Forms 941 by using Service Center costing data, management discussions, work processing and control reports, and overhead percentages, etc.
 - B. Determined cost savings if a prescreening process for potential duplicate returns was used in Receipt and Control.
- V. Identified and discussed recommendations to reduce the processing work associated with the filing of duplicate returns. Worked jointly with management to identify cost-effective solutions.

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ATTACHMENT II



CHIEF OPERATIONS OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

November 5, 1998

RECEIVED

NOV 5 1998
99-00210
Chief Inspector

MEMORANDUM FOR CHIEF INSPECTOR

FROM:

John M. Dalrymple
John M. Dalrymple
Chief Operations Officer

SUBJECT:

Response to Draft Internal Audit Report - Duplicate Form 941
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This memorandum is in response to the draft report referenced above. Should your staff require additional information, they may contact the Customer Service Internal Audit Liaison Elaine Leach, at 202-283-0448.

Recommendation 1:

Eliminate the CP 193A notices.

Assessment of Cause:

CFOL command codes now available may provide sufficient information to Customer Service Representatives working duplicate Forms 941 cases, so that the need to generate CP 193A notices could be eliminated.

Corrective Action:

We agree with the recommendation to eliminate automatic generation of this notice and have implemented the Request for Information Services to eliminate the notice.

Completion Date: May 29, 1998

Responsible Official: National Director, Customer Service Compliance, Accounts, and Quality Division OP:C:A

Recommendation 2:

Consider implementing a prescreening process in all service centers.

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Assessment of Cause:

When a taxpayer realizes that an error was made on a previously filed Form 941 return, the taxpayer should correct the error on the current period Form 941 return. However, since other types of returns use an "Amended" or "X" series return form to show corrections, many business taxpayers want to use the same process and simply file another return for the period that had the error and write on the top of the return "Amended" or "Corrected". When the taxpayer files a subsequent Form 941 for the same tax period it generates a duplicate filing condition which needs to be resolved.

To prevent returns from posting to Master File with a duplicate filing condition, some service centers have implemented procedures to identify and sort out the "Amended" or "Corrected" Form 941 returns and to expedite resolution actions.

Corrective Action:

1. Copies of the Ogden Service Center's prescreening guidelines has been provided to each service center. Each Service Center Director was asked to review the package and decide whether to adopt some form of a prescreening process or not.
2. Submission Processing will work with Adjustments and conduct a Risk Analysis to determine the implications of service centers conducting a presorting and prescreening process on the duplicate Forms 941. This Risk Analysis will include an evaluation of the cost and benefits, lack of a systemic control over the return as it is being worked, resource redistribution to conduct the prescreening, and current service center operation procedures. The Risk Analysis will conclude with a final determination for resolution of this issue.

Completed:

1. October 1, 1998 (Completed)
2. January 1, 1999

Responsible Official:

1. National Director, Submission Processing OP:FS:S
2. National Director, Customer Service Compliance, Accounts, and Quality OP:C:A

cc: Regional Inspector, Southeast Region